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FARMERS & MERCHANTS
TRUST CO. LTD.

ANNUAL REPORT
OCTOBER 31st, 1967

OFFICES

CALGARY

EDMONTON

GRANDE PRAIRIE

LETHBRIDGE

MEDICINE HAT

RED DEER

MONTREAL

NASSAU

OFFICERS

S. HANEN, *Chairman of the Board*

DONALD A. ROSS, *President*

A. RAYMOND CRÉPAULT, Q.C., *Vice-President*

NOLAN E. HINMAN, *General Manager*

GORDON C. ENNIS, *Secretary-Treasurer*

DIRECTORS

SIDNEY A. BENT

A. RAYMOND CRÉPAULT, Q.C.

H. T. R. GREGG

S. HANEN

J. E. H. LOVICK

DONALD A. ROSS

D. M. SKINNER

BRANCH MANAGERS

WILLIAM E. TANNER, *Supervisor of Branches*

LEO L. DAVIDSON

GEORGE C. ISBERG

DONALD T. McINTOSH

CLARENCE A. REMPEL

FREDERIC D. SARAGEA

BENJAMIN B. STONE

GARRY B. WRIGHT

PRESIDENT'S REPORT FOR 12 MONTH PERIOD ENDED OCTOBER 31st, 1967

I am pleased to report that your company showed very material progress in 1967. Profit on operations increased substantially, and the volume of deposits and investment certificates continued to grow.

During the past year the company sold 174,763 shares of its capital stock and was happy to welcome some 300 new shareholders to the company.

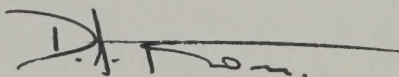
Your directors feel that the company's greatest opportunities for growth and increased profits lie in the improvement and extension of the company's operation in Canada. In keeping with that policy, the sub branch in Kingston, Jamaica has recently been closed.

The high interest policy adopted by the federal government has continued to make operating conditions difficult. There are, however, some signs that this condition has begun to stabilize and we do not anticipate substantial interest rate increases in the coming year.

I regret to advise that Mr. J. E. H. Lovick, a director of your company since 1964, died in January 1968. His wide experience and judicious counsel were greatly appreciated by his fellow directors.

The prospects for 1968 appear good. I anticipate a further, though less dramatic, improvement in profits, and continued growth in business volume. The company will continue its efforts to expand its capital base so as to maintain a conservative ratio of capital to deposits.

I would like to express my sincere appreciation to all of the staff of your company, whose efforts have been responsible for the very real improvement in your company's position.

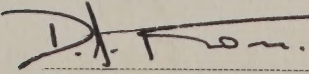
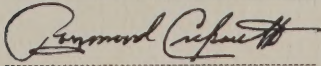
A handwritten signature in dark ink, appearing to read 'D. A. Ross', with a long horizontal line extending to the right.

DONALD A. ROSS
President

FARMERS & MERCHANTS TRUST

CONSOLIDATED BALANCE

(with comparison)

<u>Assets</u>		<u>CAPITAL</u>	
	1967	1966	
CASH	\$ 28,712	\$ 125,637	
ACCOUNTS RECEIVABLE	196,007	83,090	
INVESTMENT IN MARKETABLE SECURITIES, at cost (Note 5) (Market value 1967 — \$1,168,088; 1966 — \$1,100,720)	1,440,907	1,308,948	
AGREEMENT FOR SALE	95,486	97,280	
PROPERTIES HELD FOR SALE	831,304	280,035	
OTHER ASSETS	11,970	23,525	
LAND, BUILDINGS AND OFFICE EQUIPMENT, at cost less accumulated depreciation 1967 — \$159,266; 1966 — \$132,853	449,551	463,006	
DUE FROM AGENCY ACCOUNT	2,785	—	
DUE FROM GUARANTEED TRUST ACCOUNT	186,236	173,972	
	<u>3,242,958</u>	<u>2,555,493</u>	
			<u>GUARANTEE</u>
CASH AND BANK DEPOSIT RECEIPTS	1,012,262	1,727,503	
INVESTMENT IN MARKETABLE SECURITIES, at cost (Note 5) (Market value 1967 — \$8,655,071; 1966 — \$4,988,861)	9,279,085	5,357,326	
MORTGAGES AND AGREEMENTS RECEIVABLE	19,340,066	20,108,593	
SECURED LOANS	420,936	37,982	
	<u>30,052,349</u>	<u>27,231,404</u>	
			<u>AGENCY</u>
CASH	23,731		
APPROVED ON BEHALF OF THE BOARD:			
	Director		
	Director	23,731	
		<u>\$33,319,038</u>	<u>\$29,786,897</u>

D. LTD. and Subsidiary Companies

SHEET — OCTOBER 31, 1967

(figures for 1966)

<u>ACCOUNT</u>	<u>Liabilities</u>	
	<u>1967</u>	<u>1966</u>
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 188,486	\$ 132,371
INCOME TAXES PAYABLE	7,350	—
MORTGAGE & AGREEMENT PAYABLE	87,057	105,100
DEFERRED INCOME (Note 2)	1,093,137	1,142,007
MORTGAGE RESERVE	150,000	90,000
SHAREHOLDERS' OWNERSHIP:		
Capital stock —		
Authorized —		
100,000 7% cumulative preference shares of a par value of \$10.00 each		
1,000,000 common shares of a par value of \$1.00 each		
Issued —		
25,000 cumulative preference shares	250,000	250,000
799,763 common shares, 1966 — 625,000 (Note 1)	799,763	625,000
Reserve fund	350,000	275,000
Surplus (deficit), per statement attached	317,165	(63,985)
	<u>1,716,928</u>	<u>1,086,015</u>
	<u>3,242,958</u>	<u>2,555,493</u>

UST ACCOUNT

SAVINGS DEPOSIT	5,689,653	5,294,044
GUARANTEED SAVINGS CERTIFICATES	24,176,460	21,763,388
DUE TO CAPITAL ACCOUNT	186,236	173,972
	<u>30,052,349</u>	<u>27,231,404</u>

ACCOUNT

AGENCIES UNDER ADMINISTRATION	20,946
DUE TO CAPITAL ACCOUNT	2,785

	<u>23,731</u>	
	<u>\$33,319,038</u>	<u>\$29,786,897</u>

hed to this Balance Sheet

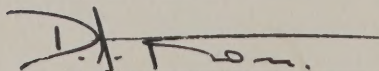
CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND SURPLUS
FOR THE YEAR ENDED OCTOBER 31, 1967
(with comparative figures for 1966)

	<u>1967</u>	<u>1966</u>
Profit before the following	\$ 1,961,598	\$ 1,490,313
Interest on savings deposits and guaranteed savings certificates	1,667,166	1,460,759
	<u>294,432</u>	<u>29,554</u>
Provision for income taxes	7,145	—
Net profit from operations before special provisions	287,287	29,554
Special provisions —		
Transfer to mortgage reserve	60,000	90,000
Loss on devaluation of foreign currency	60,000	—
Net profit (loss) for the year	167,287	(60,446)
Surplus (deficit), beginning of year	(63,985)	134,429
Add:		
Premium on shares issued less distribution costs (Notes 1 & 2)	317,782	562,500
	<u>421,084</u>	<u>636,483</u>
Less:		
Mortgages bonuses transferred to deferred income (Note 2)	—	682,968
Transfer to reserve fund	75,000	—
Dividends paid on preference shares ..	17,500	17,500
Organization costs written off	11,419	—
Surplus (deficit), end of year	<u>\$ 317,165</u>	<u>\$ (63,985)</u>

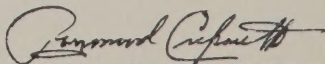
Certificate

(Under the Trust Companies Act, 1967, Sec. 91 (3))

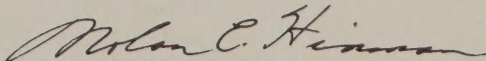
We certify that the financial statements of Farmers & Merchants Trust Co. Ltd. are to the best of our knowledge and belief correct and show truly and clearly the financial condition of the company's affairs.



D. A. ROSS, President



A. R. CREPAULT, Vice-President



N. E. HINMAN, General Manager

February 1, 1968
Calgary, Alberta

AUDITORS' REPORT

To the Shareholders of

FARMERS & MERCHANTS TRUST CO. LTD.

We have examined the consolidated balance sheet of Farmers & Merchants Trust Co. Ltd. and subsidiary companies as at October 31, 1967 and the consolidated statement of profit and loss and surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances including verification of cash, bank balances and securities of the companies. All our requirements as auditors have been complied with.

We report that the financial statements are in agreement with the books of the companies and that, with the exception of the matters referred to in Notes 6, 7 and 8, all the transactions of the companies that have come within our notice have in our opinion been within the powers of the companies.

After due consideration we have formed an independent opinion of the position of the companies as at October 31, 1967 and, except for the effect, if any, of the litigation referred to in Note 4 and subject to the realization of the cost values of the investments in marketable securities referred to in Note 5, we report that in our opinion and according to the best of our information and the explanations given to us the accompanying consolidated balance sheet and consolidated statement of profit and loss and surplus present fairly the financial position of the companies as at October 31, 1967 and the results of their operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in accounting policies as described in Note 2.

PRICE WATERHOUSE & Co.
Chartered Accountants

NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 1967

1. During the year capital stock outstanding was increased by the sale of 174,763 common shares for a cash consideration of \$524,289. The par value of \$1.00 per share (totalling \$174,763) was credited to capital stock and the premium of \$2.00 per share (totalling \$349,526) less distribution costs relative to the issue was credited to surplus.
2. In 1967 the company changed its accounting policy with respect to recognition of income received by way of mortgage bonuses. Mortgage bonuses are now brought into income proportionately over the life of the mortgage whereas previously, such bonuses were brought into income in the year of receipt.

The accounts were adjusted on a retroactive basis to give effect to this change in policy. As a result accumulated net profits previously reported were decreased by \$815,982, of which \$133,014 applies to 1966. The net income so transferred is reflected as deferred income in the comparative balance sheets.

In 1967 the company also changed its policy with regard to premiums received on the issue of common shares. Such premiums are included in the surplus account rather than a separate account. Amounts relating to prior years are included in the 1966 deficit account as restated.

3. The 1966 comparative financial statements have been restated to give effect to the changes in accounting policies referred to in Note 2, and to conform with the 1967 presentation.
4. The company has been named as co-defendant in a legal action in Alberta in which damages of \$2,500,000 have been claimed relative to a certain mortgage loan transaction in the Province of Ontario. Counsel for the company have advised that in their

opinion the company has a good defence to the action and, therefore, no provision has been made for any possible loss.

5. No provision has been made for the decline in the market value of marketable securities below cost because, in the opinion of management, such decline does not represent a permanent diminution in value.
6. As at October 31, 1967 the company carried in its capital account common stock investments of \$1,372,471. Under section 117 of the Trust Companies Act 1967 this amount should have been limited to 25% of the company's capital and reserves. The company's total investment in common shares does not exceed the amount permitted under the Act for capital and guaranteed trust account combined.
7. As at October 31, 1967 the company held \$428,675 in securities and common shares of Traders Finance Company Limited. This investment is unauthorized under section 114 of the Trust Companies Act 1967 as it exceeds 15% of the company's capital and reserves.
8. On October 31, 1967 the company made a four day loan to Wood Gundy Securities Ltd. in the amount of \$350,000 secured by Government of Canada bonds in an equivalent amount. This transaction is unauthorized under section 118 of the Trust Companies Act 1967, which provides that secured loans are not to be made against more than 95% of the value of Government of Canada bonds. The subject loan was retired November 3, 1967 with interest in full. (This loan exceeded the permitted loan by \$17,500.)

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